

# Maintaining Financial Records

ACCA ACCOUNTING TECHNICIAN EXAMINATION

INTERMEDIATE

PILOT PAPER – JUNE 2004

## QUESTION PAPER

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Time allowed      **2 hours**

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**Section A**      ALL TWENTY questions are compulsory and MUST be answered

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**Section B**      ALL FIVE questions are compulsory and MUST be answered

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**Section C**      ALL THREE questions are compulsory and MUST be answered

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Do not open this paper until instructed by the supervisor

This question paper must not be removed from the examination hall

The Association of Chartered Certified Accountants

# Paper 3 (GBR)



**Section A – ALL TWENTY questions in this section are compulsory and MUST be attempted.**

Each question in this section is worth 2 marks.

**1 What transaction is recorded by the following journal entry?**

Dr	Legal fees	£463
Cr	Creditors control	£463

- A legal fees paid by cheque
- B an invoice issued to a lawyer
- C an invoice received from a lawyer
- D a credit note received from a lawyer

**2 Which two of the following errors will be revealed by extracting a trial balance?**

- i error of single entry
- ii error of commission
- iii error of omission
- iv error of transposition

- A i and iii
- B ii and iii
- C iii and iv
- D i and iv

**3 Which of the following is an application of an estimation technique?**

- A Recording fixed assets at their historical cost
- B Depreciating motor vehicles at 20% per annum
- C Valuing stock on a first in first out (FIFO) basis
- D Recording stationery expenses at invoiced cost

**4 Lance is entering an invoice in the purchase day book. The invoice shows the following costs:**

Water treatment equipment	£39,800
Delivery	£ 1,100
Maintenance charge	£ 3,980
VAT	£ 7,854
Invoice total	£52,734

**What is the total value of capital expenditure on the invoice?**

- A £39,800
- B £40,900
- C £44,880
- D £52,734

5 When Fred's trial balance was extracted, the debit total was £400 less than the credit total.

**Which of the following errors could have caused this difference?**

- A a sales invoice for £200 was debited to both the sales account and the debtors control account
- B a cheque received for £200 was entered twice in the nominal ledger
- C a cheque to a supplier for £200 was credited to both the expense account and the creditors control account
- D the purchases account had been undercast by £200

6 **Which of the following are reasons for maintaining control accounts?**

- i to simplify the preparation of final accounts
- ii to check the accuracy of postings
- iii to confirm the value of sales
- iv to assist in locating errors in posting

- A i ii and iii
- B i iii and iv
- C i ii and iv
- D ii iii and iv

7 Joan's draft year end accounts were prepared including a prepayment for rent of £970. The prepayment should have been £1,170.

**When the error is corrected, how will net profit be affected?**

- A net profit will decrease by £200
- B net profit will increase by £200
- C net profit will decrease by £1,170
- D net profit will increase by £1,170

8 When posting an invoice for car repairs, £870 was entered on the correct side of the motor expenses account. The invoice was for £780.

**What correction should be made to the motor expenses account?**

- A Debit £90
- B Credit £90
- C Debit £1,650
- D Credit £1,650

9 The balance on Amy's sales ledger control account in the nominal ledger is £100 more than the total of the listing of the balances on the personal accounts.

**Which one of the following treatments of an invoice for £100 could have caused this difference?**

- A the invoice was entirely omitted
- B the invoice was entered on the credit side of the personal account
- C the invoice was not entered in the personal account
- D the invoice was entered twice in the personal account

**10 How should the balance on the sales ledger control account be reported in the final accounts?**

- A as an expense
- B as a fixed asset
- C as a current asset
- D as a current liability

**11** Colin provides for potential bad debts on the basis of the length of time the debt has been outstanding. The aged debtors analysis at 30 September 2003 and the provisions required are:

<i>Age of debt</i>	<i>£</i>	<i>Provision required</i>
0 – 30 days	56,800	1% of balances
31 – 59 days	37,700	20% of balances
60 days and over	14,900	75% of balances

At 1 October 2002, Colin's doubtful debts provision was £18,765

**Which of the following should be reported in Colin's profit and loss account for the year to 30 September 2003?**

- A a charge of £518
- B a credit of £518
- C a charge of £19,283
- D a credit of £19,283

**12** Margaret checked her bank statement to the bank account in her nominal ledger and found the following reasons for the difference:

- i some cheques have not been lodged by her suppliers
- ii the bank credited a personal lodgement to her business account in error
- iii the bank debited fees on her account

**Which of the differences require an entry in the bank account in the nominal ledger?**

- A i
- B ii
- C iii
- D ii and iii

**13** Alan prepared his draft year end accounts, but did not adjust these for a prepayment of £1,500 and an accrual of £400.

**How will Alan's profit and net assets be affected by including the prepayment and the accrual?**

<i>Net Profit will:</i>	<i>Net assets will:</i>
A increase by £1,100	reduce by £1,100
B reduce by £1,900	increase by £1,900
C increase by £1,100	increase by £1,100
D reduce by £1,900	reduce by £1,900

14 In September 2003, Bridget took out a business development loan for £15,000. This is to be repaid in three equal instalments. The first instalment is due for payment on 1 January 2005.

**How will the outstanding balance be reported in Bridget's balance sheet at 30 November 2003?**

- A £15,000 as a current liability
- B £5,000 as a current liability and £10,000 as a long term liability
- C £10,000 as a current liability and £5,000 as a long term liability
- D £15,000 as a long term liability

15 Adele runs a restaurant. In August 2003 she received a letter from a lawyer representing a customer who claims he suffered food poisoning after eating in the restaurant. The customer is claiming damages of £3,000. Adele offered to pay £300. Her lawyer's advice is that in the event of the case going to court, she is likely to be required to pay £1,500. The solicitor also advised that the court case is unlikely to take place before April 2004.

**What amount should be provided for in respect of the claim in Adele's final accounts for the year ended 30 September 2003?**

- A £nil
- B £300
- C £1,500
- D £3,000

**The following information relates to questions 16 and 17:**

At 30 September 2003 Pamela's stock was valued at £6,400 and her trial balance included the following balances:

	<i>Debit</i>	<i>Credit</i>
	£	£
Sales		45,000
Purchases	29,500	
Stock at 1 October 2002	5,700	
Carriage inwards	750	
Postage	340	
Wages	6,000	
Advertising	1,900	
Other expenses	2,500	

**16 What is Pamela's gross profit?**

- A £4,710
- B £15,110
- C £15,450
- D £16,200

**17 What sum will be reported as expenses in Pamela's profit and loss account?**

- A £10,400
- B £10,740
- C £11,490
- D £17,190

**18** In the year to 30 September 2003 Rena paid a total of £2,850 for business car expenses. This includes £350 which Rena paid from her personal funds. There was an opening accrual of £329 on the car expenses account and the closing accrual was £464.

**What is the charge for car expenses to be reported in Rena's profit and loss account for the year to 30 September 2003?**

- A £2,365
- B £2,635
- C £2,715
- D £2,985

**19** Albert does not keep full accounting records. His last accounts show that his capital balance was £42,890. At the year end he calculated that his assets and liabilities are:

	£
Fixed assets	41,700
Stock	9,860
Debtors	7,695
Creditors	4,174
Bank overdraft	5,537

On reviewing his calculations, you note that he did not include £258 of unpaid invoices for expenses.

**What is the value of Albert's closing capital?**

- A £49,286
- B £49,544
- C £60,360
- D £60,876

**20** In the last twelve months, Jenna's capital balance increased by £6,798. In the year her drawings totalled £14,600 and she introduced additional capital of £2,900.

**What is Jenna's net profit or loss for the year?**

- A £4,902 loss
- B £18,498 loss
- C £4,902 profit
- D £18,498 profit

**Section B – ALL FIVE questions in this section are compulsory and MUST be attempted.**

Marks are allocated to questions as shown.

- 1** A new trainee in your firm is having difficulty understanding basic accounting, in particular the distinction between assets and liabilities.

**Required:**

**Define 'asset' and 'liability' and give one example of each. (3 marks)**

- 2** The final accounts for your company include a note which states: 'these accounts have been prepared on the going concern basis'

**Required:**

**Briefly explain what is meant by the 'going concern basis'. (3 marks)**

- 3** Your neighbour recently started his own business. He wishes to keep costs as low as possible, and intends to prepare his own year end accounts. He read that accounts should be prepared using the accruals principle, but he does not know what this means.

**Required:**

**Briefly explain the accruals principle and how it is applied when preparing year end accounts. (4 marks)**

- 4** The ASB's statement of principles notes that that financial statements are intended to provide information to a 'wide range of users'

**Required:**

**Identify two different users of financial statements, and their respective needs. (3 marks)**

- 5** A member of your company's marketing department is concerned about the amount of information she is asked to provide each time accounts are being prepared. When you spoke to her about this, you mentioned the importance of Financial Reporting Standards and she asked you what purpose these serve.

**Required:**

**State the basic purpose of Financial Reporting Standards. (2 marks)**

**Section C – ALL THREE questions in this section are compulsory and MUST be attempted.**

Each question is worth 15 marks.

**1** At 1 October 2002 Jim had fixed assets as follows:

	<i>Freehold Land</i>	<i>Buildings</i>	<i>Machinery</i>
	£	£	£
Cost	85,000	120,500	74,800
Accumulated depreciation	nil	28,920	35,600

Jim's policy is to provide for a full year's depreciation in the year of acquisition, but no provision is made in the year of disposal. Depreciation is provided at the following rates:

Land	nil
Buildings	written off over 25 years, on the straight line basis
Machinery	20% per annum, on the reducing balance basis

During the year to 30 September 2003, Jim added an extension to the buildings at a cost of £6,800. He also acquired a new machine, by paying the dealer £9,000 by cheque and trading in an old machine for £5,500.

The machine traded in had been acquired in January 2000 at a cost of £11,000.

Jim has asked why depreciation is not charged on the land, but is charged on other fixed assets.

**Required:**

- (a) As at 30 September 2003, calculate:
- (i) the value of Jim's fixed assets, before deducting depreciation; (3 marks)
  - (ii) the accumulated depreciation; (4 marks)
  - (iii) the net book value of fixed assets. (1 mark)
- (b) Calculate the profit or loss on the machine which was traded in. (3 marks)
- (c) Draft brief notes which explain why depreciation should be charged on the fixed assets other than freehold land. (4 marks)
- (15 marks)**



- 2 The balance on the purchase ledger control account in Tina's nominal ledger is £48,395. The total of the listing of the balances in the personal ledger is £46,644. On checking, Tina found the following reasons for the difference:
- (i) a cheque for £ 4,300 was paid to a supplier in full settlement of an invoice for £4,320. The discount was recorded in the personal account, but was not recorded in the nominal ledger.
  - (ii) the purchase day book total for June was overcast by £90.
  - (iii) the total of cheques issued to suppliers was £78,056, but was posted to the control account as £78,065
  - (iv) an invoice for £459 was entirely omitted from the books.
  - (v) a credit balance of £870 on a suppliers account was included in the listing as a debit balance of £780.

**Required:**

- (a) **Show the purchase ledger control account, including any necessary correcting entries.** (5 marks)  
NB You must use a format which clearly shows whether each entry is a debit or a credit entry
- (b) **Show the reconciliation of the listing of the balances on the personal accounts to the corrected purchase ledger control account balance.** (5 marks)
- (c) **State the creditor's balance to be reported on Tina's balance sheet, indicating how the balance will be reported.** (2 marks)
- (d) **Indicate three reasons why a purchase ledger reconciliation is carried out.** (3 marks)

**(15 marks)**

- 3 John and Darryl are in partnership sharing profits and losses in the ratio 60:40 respectively.

Under the terms of the partnership agreement, the partners are entitled to interest on their capital account balances at a rate of 5% per annum. The agreement also provides for a salary of £13,000 to be paid to John and a salary of £5,000 to be paid to Darryl.

At 1 November 2002 the balances on the partners' capital and current accounts were:

	<i>Capital account</i>	<i>Current account</i>
	£	£
John	60,000	43,250
Darryl	50,000	26,560

On 1 January 2003 John introduced a further £60,000.

During the year to 31 October 2003 both partners withdrew £18,000.

The draft accounts for the year to 31 October 2003 report a net profit of £37,458. Stock was valued at cost £45,864. This includes damaged items which cost £5,748. The partners intend to repair these at a cost of £1,475. They will then be sold for £6,700.

**Required:**

- (a) **Calculate the revised net profit for the year to 31 October 2003, after making any necessary adjustments to the valuation of stock.** (4 marks)
- (b) **Calculate each partner's total share of the profit.** (6 marks)
- (c) **Show John's current account, including the closing balance, at 31 October 2003.** (5 marks)  
NB You must use a format which clearly shows whether each entry is a debit or a credit entry.

**(15 marks)**

**End of Question Paper**

